CoBank
6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

August 29, 2022

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue
Washington, DC 20551
Submitted via Email

Dear Ms. Misback:

CoBank, ACB, on behalf of the Farm Credit Banks (FC Banks), appreciates the opportunity to comment on the Regulation Implementing the Adjustable Interest Rate (LIBOR) Act (Act).

The FC Banks are part of the Farm Credit System (FCS), which is a government-sponsored enterprise of the United States that provides loans, leases, and financial services to rural American farmers, ranchers, and agricultural, aquatic and infrastructure cooperatives and providers, across all fifty states and the Commonwealth of Puerto Rico.[1] The FC Banks are: (1) AgFirst Farm Credit Bank; (2) AgriBank, FCB; (3); CoBank, ACB and (4) Farm Credit Bank of Texas. Together, the FC Banks are among the leading lenders to rural America; they provide credit for rural housing, agricultural processing and marketing activities, utilities providers, and certain farm-related businesses.

Congress created the FCS, to provide a permanent, stable source of credit and related services to support rural America and improve the lives of its residents. Specifically, the FCS institutions were created "to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations"[2]. Since its creation, CoBank was granted authorities to provide credit to rural infrastructure providers, who are vital to creating successful businesses and healthy rural communities. The FC Banks and their associations hold gross loans of $357 billion, as of June 30, 2022, and provide approximately 44% of all U.S. agricultural financing according to the U.S. Department of Agriculture.

[1] See generally 2021 Annual Report on the Farm Credit System by the Farm Credit Administration.
[2] 12 U.S.C. § 2001(a)

Before addressing the questions in the request for comment, the FC Banks would like to provide several general comments related to the transition from USD LIBOR to an alternative reference rate.

The FC Banks compliment the Adjustable Reference Rate Committee (ARRC) on its fallback language recommendations from the Business Loans, Floating Rate Notes and Securitization Work Groups in developing a reasonably coordinated approach to the fallbacks language across cash products and to utilize CME Term Secured Overnight Finance Rate (SOFR) as the primary replacement rates for USD LIBOR.

The FC Banks had also asked the International Swap and Derivative Association (ISDA) in our response to the ISDA's consultations to work to align key aspects of the fallback language for USD LIBOR bilateral derivatives with the ARRC cash product's recommendations. In the view of the Banks, a lack of coordination among the fallback language between the derivative and cash market have created basis risks for all financial institutions which increased the costs and the complexity of the USD LIBOR transition. That said, the Banks understand that it is too late in the process to make changes to the selection of the form of the SOFR based replacement rate for derivatives by the ISDA.

Additionally, the FC Banks' have been frustrated by the attempts to limit the use of CME Term SOFR in the market. In our view, the Term SOFR rates, including the ARRC/ ISDA Adjustment Spreads, are the most economically equivalent and simplest choice for the replacing USD LIBOR for end-users. These CME Term SOFR indexes similarity to the structure of USD LIBOR indexes allows for the transition without creating substantial additional changes to the existing legal documentation, instrument structure and accounting systems. In our view, the resistance to the broader adoption of Term SOFR still acts as an impediment to the successful transition from USD LIBOR to alternative reference rates and was the primary factor for the initial slow pace of transition in many key markets.

Attached are the FC Banks' responses to the specific questions put forth in the Federal Reserve's request for comment on the Regulation Implementing the Adjustable Interest Rate (LIBOR) Act. The responses have been developed jointly by the FC Banks. This feedback represents our current thoughts and might be subject to changes as we see developments in the markets and regulatory environment.

The FC Banks welcome the opportunity to discuss our comments with you. Please contact the following staff with any comments or questions:

Bank	Contact	Email
AgFirst, FCB	Josh Goethe	JGoethe@AgFirst.com
AgriBank, FCB	Luis Sahmkow	Luis.Sahmkow@agribank.com
CoBank, ACB	James Shanahan	JShanahan@cobank.com
Farm Credit Bank of Texas	Kristy Vrabel	Kristy.Vrabel@farmcreditbank.com

Sincerely,

James W. Shanahan, CFA
Vice President – Financial & Regulatory Compliance
CoBank, ACB

The following are the Farm Credit Banks' response to the Federal Reserve Board's request for specific questions which we have substantive comments. For questions which the Banks did not address in this letter, please consider lack of comments as our concurrence with the stated current recommendations:

What, if any, alternative SOFR-based benchmark replacements should the Board consider for derivative transactions instead of Fallback Rate (SOFR) as defined in the ISDA protocol (e.g., a type of SOFR average)?

FC Banks' Response: As stated in our letter's general statements, the Banks would have preferred that the ISDA allow for the use of Term SOFR in fallbacks but given the timing we do not think that the Federal Reserve Board should make changes from ISDA protocol's defined Fallback Rate.

What, if any, alternative SOFR-based benchmark replacements should the Board consider for covered GSE contracts instead of 30-day Average SOFR, such as SOFR term rates?

FC Banks's Response: The FC Banks are concerned that the definition of GSEs and Covered GSE Contracts is too broad in the proposed regulation and might be interpreted to include transactions which are not regulated by the Federal Housing Finance Agency (FHFA). Further, the Banks are concerned that the differentiation of GSE Covered Contract is not part of the Act or ARRC recommendation, but only a creation of the proposed regulation to accommodate the FHFA's support of the 30-day Average SOFR recommendation as discussed in the preamble of the proposed regulation. Finally, the FC Banks and their Farm Credit Associations are regulated by the Farm Credit Administration which has not endorsed the use of the 30-day Average SOFR in Advance as a replacement rate for Farm Credit transitions. The FC Banks would like the final regulations to specifically exclude all Farm Credit transactions which the Banks feel were not intended to be included in the scope of GSEs or Covered GSE Contract in the final regulation.

The FC Banks would also like to express our concern related to the inclusion of 30-day SOFR Averages in Advance for any GSE Covered Contracts. The Banks are concerned that applying this possible alternative reference rate could create significant volatility in earnings during periods of monetary policy activity because funding and hedging instruments do not exist for lagging rate indexes. Additionally, the effect of the lagging indexes could also lead to ineffectiveness with hedge since this is not an economically equivalent rate for USD LIBOR indexes given the forward-looking nature and the different repricing terms that exist.

The Banks think that the holders and issuers of these instruments would be better served by designating the CME Term SOFR indexes (which as the Banks stated is an economic equivalent to USD LIBOR indexes) as the SOFR-based Benchmark Replacement for these contracts. As stated previously, the Banks strongly advocate for coordinated fallback language across all cash market products.

Is the proposed provision concerning the application of the proposed rule to non-covered contracts sufficiently clear? What, if any, additional clarifications should the Board consider with respect to non-covered contracts? For example, should the final rule address the ambiguity discussed above regarding LIBOR contracts with fallback provisions that lack an express nonrepresentativeness trigger, perhaps by indicating that those contracts' fallback provisions would be triggered on the LIBOR replacement date?

FC Banks's Response: The FC Banks are concerned that if the United Kingdom's Financial Conduct Authority compels the ICE Benchmark Administrator to continue to publish "Synthetic" USD LIBOR after June 30, 2023, the transition of certain non-covered contract could become an issue. The Banks are specifically concerned about non-covered contacts which contain USD LIBOR fallbacks (in any form) but do not contain a trigger related to USD LIBOR being declared as non-representative. These contract would only trigger fallbacks if USD LIBOR is not published. Additionally, for non-covered contract with non-representative triggers, the continued publication of USD LIBOR indexes after June 30, 2023, could give the participates the impression that USD LIBOR remains available. The problem would be compounded if the methodology utilized by ICE is not linked specifically to CME Term SOFR to determining the indexes since the Synthetic USD LIBOR indexes could be different then the ARRC fallback rates for cash products.

It is the hope of the FC Banks that the Federal Reserve Board could deter the publication of Synthetic USD LIBOR after June 30, 2023 or at a minimum ensure that the non-representative USD LIBOR rates are determined by utilizing CME Term SOFR plus the ARRC endorsed Adjustment Spreads. Additionally, it would be beneficial for the Board to provide some clarification around the use of a non-representative Synthetic USD LIBOR on non-covered contract after June 30, 2023.